

**Department of Transportation
Statement of the Maritime Administrator
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Before the
Sub-Committee on Coast Guard and Maritime Transportation
United States House of Representatives**

**On the
State of the United States' Merchant Fleet in Foreign Commerce**

July 20, 2010

Good afternoon, Mr. Chairman and Members of the Committee. Thank you for the invitation to testify on the state of the United States' Merchant Fleet in foreign commerce, an industry that is vital to the economic and defense security of our Nation. The Maritime Administration looks forward to working with the Committee to find ways to strengthen our U.S.-flag maritime industry as a whole, including our Jones Act trade. It is my hope that our discussions today will lay the groundwork for legislative initiatives and policies that will add new permanent capacity to our Nation's merchant marine.

The United States is the world's largest trading nation and our national policy is to maintain a U.S.-flag merchant marine sufficient to carry our waterborne domestic commerce and a substantial part of our foreign commerce.¹ The portion of our Nation's international trade carried on U.S.-flag ships, however, has declined from a high of 92.5 percent in 1826 to 57.6 percent 1947 to a low of less than 2 percent today. In fact, today there are no U.S.-flag carriers listed among the top 20 global carriers.

In 1947, the U.S.-flag fleet consisted of around 980 privately-owned vessels over 1,000 gross tons and above, representing over 40% of the world's shipping capacity. These large U.S. carriers created many of the technological innovations now used by the rest of the world. For example, one key innovation from the 1950's was containerization of cargo, an American idea that completely reshaped international commerce. However, U.S. maritime programs have not been successful in inducing or even maintaining capacity within the Nation's domestic merchant marine.

Today, there are 115 self-propelled, U.S.-flag ships engaged in the U.S. foreign commerce. This fleet is composed of 5 tankers, 11 dry bulk, 28 roll-on/roll-off vessels, 61 container ships, and 10 multipurpose ships. All of these ships participate in the Federal Government's cargo preference program. Twelve of the vessels are Jones Act qualified and do not regularly carry foreign commerce. Sixty of them participate in the Maritime Security Program, which has been successful in maintaining the required number of militarily-useful ships and their crews that could be called upon to respond to possible military contingencies.

¹ 46 USC § 50101.

As the U.S.-flag commercial fleet operating in foreign commerce has declined in number, so too have direct shipboard jobs for American workers. Further, technological innovations such as increased automation, have reduced average crew sizes from 45 to 20 or less per vessel even as typical vessel capacity has increased. This impact has been felt in the international and Jones Act trade causing the number of U.S. mariners to decrease from about 69,100 in 1970 to about 20,500 in 2009.

The primary source of personnel to meet military sealift demands is the commercial U.S.-flag shipping industry. These men and women crew the government's Ready Reserve Force and surge vessels which are activated for emergencies like the recent one in Haiti. As a whole, these mariners are part of an aging workforce, with the average age currently over 42 years.

The ability of the U.S. merchant marine to respond to major military contingencies worldwide is dependent on adequate U.S.-flag active/reserve sealift resources, including a skilled U.S. maritime labor pool. In coordination with the U.S. Coast Guard, our mariner outreach program tracks maritime workforce trends.

One method of attracting new individuals to a professional maritime career is through a collegiate maritime program, such as the U.S. Merchant Marine Academy (USMMA) or one of the six state maritime academies located in Texas, California, New York, Michigan, Maine, and Massachusetts. The Maritime Administration is responsible for directly overseeing the USMMA at Kings Point, New York. The agency also provides training vessels, student incentive payments, and other support to the six state maritime academies. These academies offer four-year undergraduate engineering and logistics programs, and their graduates find employment as licensed mariners and in shoreside occupations such as shipyard management and transportation logistics. Collectively, the USMMA and the six state academies graduate more than 700 highly trained, U.S. Coast Guard licensed deck and engineering officers each year.

I'd like to take this opportunity to highlight a little known fact about the U.S. Merchant Marine Academy and the state maritime academies – they accepted women earlier than either West Point or Annapolis. In 1974 the U.S. Merchant Marine Academy became the first federal service academy to enroll women students, two years ahead of the Army, Navy, Air Force or Coast Guard academies.

The Maritime Administration is also working with 19 maritime high schools around the nation to attract young men and women into the industry by learning about the merchant marine while still in high school. Last February, I had the opportunity to visit one such high school in Baltimore, Maryland. I was impressed with the dedication the students at the Maritime Industries Academy demonstrated towards learning about a key component of our nation's economy: maritime transportation. These young men and women are the future of this industry and I will be working with the school to help them achieve success.

The Maritime Administration also has a role in implementing international training standards for mariners. Mariners must receive a significant amount of training to be

qualified to work aboard a ship. In addition, they must receive recurring training to maintain proficiency. Lastly, the training that mariners are required to have is constantly increasing. The reason is for this increase is to improve safety, security, and environmental compliance.

Economic Issues

Our economy depends on the ability of goods, both imports and exports, to move smoothly through the international supply chain. As President Obama stated on March 11th, when he launched the National Export Initiative (NEI), the United States exported more than a trillion dollars of manufactured goods in 2008, supporting more than 20 percent of all manufacturing jobs. There were also exports of nearly \$100 billion in agricultural goods. To facilitate this, the U.S. transportation industry employs millions of people on our ships and tugs, in our ports and shipyards, operating our trucks and railroads, and in related activities. U.S. trade with the rest of the world is projected to continue growing and reach about 3.2 billion tons by 2038. Most of these goods, about 75 percent, are now and will continue to be transported by sea. The Maritime Administration and U.S. merchant marine have a key role to play in the NEI, as the utilization of U.S.-flag ships to carry our commerce is itself a “service export.”

Defense Issues

The U.S. merchant marine has supported every conflict and crisis since our Nation’s founding. They U.S. mariners are our valuable eyes and ears. Our national policy calls for a merchant marine capable of serving as a naval and military auxiliary in time of war or national emergency. Almost 95 percent of our military supplies move by water and over 85 percent of our strategic commodities are imported by water. Much of this is moved by the military using their own ships or chartered vessels, and under cargo preference laws, a portion is also moved by the merchant marine. Time and again, the U.S. merchant marine and its citizen mariners have brought the equipment from the fort to the foxhole. They are among the first into a war zone and the last out. Of the five Federal service academies, only the U.S. Merchant Marine Academy is entitled to carry a battle flag, as it has sent its students aboard U.S. merchant vessels into every conflict, and many have died in that service to our country.

The Wilson-Weeks Agreement of 1954 and Presidential Directive 28 of 1989 mandate that U.S.-flag merchant marine vessels are given priority to carry Department of Defense (DOD) materiel in times of both peace and conflict. The Government-owned cargo fleet is sized to provide the capacity that our U.S. commercial fleet cannot provide, such as during surge conditions when a very large amount of cargo must be quickly transported overseas. The Voluntary Intermodal Sealift Agreement provides DOD with assured access to a global intermodal infrastructure. Our commercial merchant marine already has access to operations and assets in or adjacent to every country where there might be a threat in the future.

Maintaining the U.S. Merchant Marine

The U.S. merchant marine is among the safest, most secure and environmentally-responsible in the world. Federal requirements are designed to ensure U.S. crews are trained, vessels are built and maintained to safe operating standards, and operations have no unnecessary adverse impact on the environment. However, operating vessels under the U.S. flag under these requirements imposes higher wage, maintenance, repair, and insurance costs; increased regulatory burden; and tax implications. Transport of commercial cargoes does not generate sufficient revenue to cover the cost of operations under the U.S. flag.

Two federal programs administered by the Maritime Administration are a major reason vessels remain under or seek U.S. registry – the Cargo Preference Program and the Maritime Security Program. Of the foreign trade currently carried by U.S. flag ships, a significant share is attributable to preference cargoes that provide a revenue base upon which the carriers can build commercial cargo orders. Our latest 5 year data review shows that the program generates over 16 million revenue tons of cargo and over \$1.3 billion of ocean freight revenue annually. Military cargoes represent about 64% of the revenue while food aid is 29% and other programs are 7%. Preference cargoes provide a minimum revenue base of 5% to 7% of cargoes for liner vessels and over 50% vessels in tramp or charter service.

The Maritime Security Program provides an annual stipend to partially offset the cost differential of operating under U.S.-flag registry. The ten year authorization for the Maritime Security Program expires in 2015 and carriers have expressed some concern about the need to take steps to reauthorize the program well before that time in order to maintain some continuity and availability of U.S.-flag ships and the future business prospects for their assets. Shipbuilding is expensive and investors need to have confidence in order to commit their dollars to building vessels with a 25-plus year life. The concern that the program may not be renewed, or renewed at a sufficient level, could negatively affect future investment decisions.

At this time, I will be pleased to answer any questions the Committee may have. Thank you.